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# Real Estate Sector - Reminiscing 2020, Aspiring for the Future

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## Overview of the sector in the beginning of the year

At the start of 2020, the real estate sector in India was emerging from the slowdown and on the threshold of exponential growth. The sector had witnessed many transformative reforms over the past few years and these reforms had laid the foundation for massive growth. The key drivers of growth for the sector were regulatory reforms including RERA and GST, relaxation in FDI which will encourage more investment, steady demand generated through urbanisation, rising household income and the emergence of affordable housing.

RERA has been a key driver in the revival of sector. With its implementation being carried out across the states, the overall goal of RERA is to protect the interests of homebuyers in an efficient and transparent manner. Without RERA approval, developers are not allowed to promote or sell any project. This has effectively weeded out unscrupulous players from the market and allowed only credible developers to flourish.

The reduction in GST on under-construction properties and affordable housing was a positive step. The lower GST reduces the pricing disparity between under-construction and completed properties. A reduction in price will dispel hesitation associated with under-construction properties. This will incentivise sales of under-construction properties and spur demand for new projects. Lowering the GST for affordable housing projects provides people of low-income groups with the opportunity to purchase homes and brings property ownership within reach of a wider audience.

In response to the lagging growth in the real estate sector in the previous year, the Government announced an economic stimulus package in late 2019, which included a Rs 10000 crore special window to provide last-mile funding for completion of ongoing housing projects. A matching amount was expected from outside investors, institutions and private capital. These funds will aid the completion of approximately 3.5 lakh affordable and middle-income housing units.

The slowing economy also prompted the Reserve Bank of India to direct banks to link their floating rate loan products to external benchmarks. This move is expected to lower EMIs on home loans, as well as reduce the debt repayment burden on developers. It presents a great opportunity for the sector as the ease of financing should translate into increased sales, new project launches and a rejuvenated economy. However, it is important that the transmission of these rate cuts is implemented with immediate effect to effectively bolster economic growth.

The severe liquidity crunch in the sector also spurred the launch of India’s first REIT (Real Estate Investment Trust). This financial instrument provides new opportunities for funding from foreign and domestic investors.

## How COVID 19 lockdown impacted the industry

Real estate sales in India were improving in the first quarter of 2020 until the social distancing advisories

by the government came into effect, which reduced site visits. Due to the subsequent lockdown, home buyers deferred their decisions until there was more clarity regarding the government response and the overall market outlook.

Developers deferred new launches until the latter part of the year to coincide with the festive season. The priority shifted to sell ready-to-occupy inventory. The inventory absorption in the residential real estate sector also declined heavily. The unavailability of labour coupled with the rising cost of materials were additional setbacks. Many projects were stalled and delivery dates were pushed back. During the initial stages of the lockdown, demand reduced drastically.

The COVID-19 pandemic also changed the way consumers approach buying real estate. The sudden onset of unexpected developments made many home buyers take extra precautions and demand greater value from the property including amenities, connectivity, and social infrastructure. Interestingly, many buyers preferred larger property sizes to accommodate working from home. This bolstered the sector's recovery.

As the lockdown lifted and the situation was brought under control, the market quickly regained its previous momentum. Although there was a temporary slowdown in sales, it did not affect the increasing real estate price trajectory in India nor was there a widespread price correction. We can expect the residential real estate market to fully regain its pre-COVID momentum by the start of 2021.

Real estate will always be viewed as a safe and secure investment. The emergence of an economic crisis only reinforces this sentiment. Owning property elicits a high sense of security when the economy is facing uncertainty. Accordingly, there was high demand for reputed developers with minimal execution risk. Furthermore, home loan interest rates are at a 15-year low and many reputed developers launched price protection plans, discount schemes and attractive payment plans to further incentivise buyers and boost demand.

**All the reforms that were introduced and how it impacted the sector**

The Union Budget 2020 aimed at streamlining tax rates and minimising administration. These measures will ensure surplus funds in the hands of potential home-buyers, which will bolster consumer confidence and increase investments.

- **Revise Income Tax Slabs:** In order to provide significant relief to the individual taxpayers and to simplify the tax law, the government has proposed to bring a simplified personal income tax regime wherein income tax rates will be significantly reduced for the individual taxpayers who forgo certain deductions and exemptions. This will increase the disposable income for potential homebuyers.
- **Tax Holiday for Affordable Housing:** The tax holiday for projects under the affordable housing category available under Section 80IBA which was available for the projects which are approved by March 31, 2020 will be available even for the projects which are approved till March 31, 2021. Extending the deduction of Rs 1,50,000 for one year will increase the demand for affordable housing and extending the tax holiday to affordable housing developers will further incentivise the segment.
- **Reduction of Stamp Duty:** Some states such as Karnataka and Maharashtra have opted to reduce stamp duty on affordable housing. The availability of affordable housing is critical to India's economic growth. Attracted by growing job opportunities in cities, consumer demand for affordable housing has increased exponentially. As it is a price-sensitive segment, this move can incentivise potential buyers and widen the market opportunity. This will truly make housing available for all.
- **Capital Gains:** The threshold limit for applying the provision to tax the difference as capital gains or income from other sources in case the stated consideration is lower than the stamp duty valuation, has been increased from the existing 5% to 10%. This will help the home buyer where the actual consideration is lower but the stamp duty valuation continues to be high in cases where the difference does not exceed 10% instead of the existing threshold limit of 5%.
- **Stamp Duty Valuation:** For the purpose of computing capital gains, tax payers have the option to take the fair market value of the land and building as on April 1, 2001. There were previously no restrictions on how much the valuation varied from stamp duty valuations. Budget 2020

proposes that the valuation cannot be higher than the stamp duty valuation.

- **Extension of Home Loan Interest Benefit:** The additional benefit of Rs 1.5 lakh of interest available under Section 80EEA introduced in 2019, was applicable in case the home loan was sanctioned between April 1, 2019 to March 31, 2020. Budget 2020 announced that the same will be available for home buyers who get their home loan sanctioned between April 1, 2020 and March 31, 2021.
- **Concession for Sovereign Wealth Funds:** The proposal of 100 percent tax concession to sovereign wealth funds on investment in infrastructure projects highlights the significant impact construction and infrastructure have on the economy.
- **Double Non-Taxation for Residents:** Budget 2020 has proposed changes to tax residency criteria to curb instances of double non-taxation for residents of two countries. An Indian citizen would be deemed to be a resident in India if they are not liable to tax in another country by reason of their domicile or residence. This would be applicable to NRIs receiving rental income from property investments in India.
- **Shorter Tax Residency Trigger:** The Budget 2020 proposes to trigger tax residency in India at a lower trigger of 120 days of stay in India instead of the existing threshold of 182 days. This will limit the possibilities of people who are able to carry out substantial economic activity such as real estate investments from India without paying any taxes.
- **Not Ordinarily Resident in India:** For an individual to qualify as a 'Not Ordinarily Resident' in India, they would have to be non-resident in India for 7 years instead of 9 out of the preceding 10 financial years. For example, someone who has not visited India for a single day in the last 2 years but has been a resident in the preceding 8 years, will be considered as 'Resident and ordinarily resident' and their global income will be liable to tax in India.

**What more reforms are still needed in 2021 to help the sector grow**

Budget 2020 highlighted the far-reaching impact of the real estate sector on India's overall economic performance. The real estate sector is a strong contributor to India's growth and is the second highest employing industry. Building the physical and social infrastructure for a 10 trillion dollar economy requires a concerted effort from all stakeholders.

The granting of infrastructure status to the entire real estate sector would provide a huge boost. We have seen the impact of infrastructure status on affordable housing with many reputed developers now incentivised to launch much-needed projects in the affordable segment. The sector also looks forward to a streamlined approval process with Single Window Clearance.

Furthermore, the real estate sector requires demand-generating measures that will curtail the slowdown in economic growth. This includes tax relief measures for both consumers and developers.

The reduction of the GST rate on under-construction properties was made with the intention of improving the sentiments and thereby giving demand a much-needed impetus. However, for the benefits to have a meaningful impact, the government would need to look at a holistic approach. The government should re-look at the GST rates levied on the construction materials especially cement and other raw materials. Rationalizing the GST rates of these commodities will bring down the burden of construction cost and the overall pricing also will be positively impacted.

The growth of the real estate sector has always had a multiplier effect on the growth of the entire country's GDP and the rationalisation of the tax structure will further accelerate the momentum of the real estate sector going forward.